PROGRAM FOR IMPROVEMENT OF THE EFFICIENCY AND MANAGEMENT OF REGIONAL INVESTMENT

(CH-0161)

EXECUTIVE SUMMARY

Borrower:	Republic of Chile	
Executing agency:	Undersecretariat for Regional and Administrative Development (SUBDERE) of the Ministry of the Interior (MINTER)	
Amount and source:	IDB (CO):	US$300 million
	Local:	US$200 million
	Total:	US$500 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	5 years
	Physical initiation of works:	4.5 years
	Disbursement period:	5 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollar under the Single Currency Facility

Objectives:

The general objective of the program is to support efforts to improve the efficiency and management of regional investment in the framework of an expanded government decentralization process.

To that end, the program will include activities aimed at achieving the following specific objectives:

(i) Continue channeling investment resources to promote socioeconomic development and, especially, improve the living conditions of the lowest-income groups.

(ii) Develop the capacity of regional governments to plan, program, and allocate investment resources in accordance with the government's social development objectives and regional development priorities.

(iii) Strengthen and rationalize the use of investment financing instruments at the regional government level.

(iv) Improve the efficiency of regional investment, by enhancing the distribution and prioritization of investments within each region in order to optimize results.

(v) Improve the quality and targeting of investments, by developing the capacity of municipal governments and technical units within the deconcentrated government system to plan, evaluate, design, and efficiently execute investment projects.

(vi) Support the government in its efforts to deepen its decentralization policy.

Description:

Component 1: Investment (US$410.4 million)

The program will finance investments for which the regions are responsible; eligibility will be determined on the basis of project prioritization and selection criteria established under the operating regulations of the National Fund for Regional Development (FNDR) and by the regional governments.

The investments must be consistent with the regional strategic plans and the multiyear investment plans. The program will finance all sectors financed by the FNDR, including the following: (i) areas that have received financing through prior Bank operations, such as education, health, sanitation, rural roads, urban street paving, rural electrification, rural telephony, flood protection, and infrastructure for fishing coves; and (ii) investments of the type that the FNDR has traditionally financed with its own resources, such as investments in recreation and sports infrastructure, fire control equipment, and irrigation infrastructure.

Other projects that address emerging issues such as urban renewal, citizen security, and productive development will be supported on an experimental basis during the first two years of the program. The results of such projects will then be evaluated in order to determine whether they should be fully incorporated into the FNDR. As these types of intervention are found to be viable, the experience gained and the evaluation methodology used will be shared with the other regions.

Component 2: Institutional strengthening (US$9.7 million)

Under this component, financing will be provided for technical assistance, consultancies, and equipment to strengthen the managerial capacity of the regional governments and regional government agencies (deconcentrated ministerial offices, services, municipal governments, etc.), as well as that of SUBDERE and the Ministry of Planning and Cooperation (MIDEPLAN) at the central government level.

At both levels of government, the aim is to achieve greater efficiency in regional investment through better coordination of available sources of funding and by financing investments that are consistent with regional development plans and strategies.

Component 3: Studies to deepen decentralization (US$2 million)

Financing will be provided for studies and advisory services to support implementation of the government's decentralization strategy in the short and medium terms. The studies will focus on the following four areas: (i) political decentralization and citizen participation to enhance local and regional democracy; (ii) administrative decentralization and deconcentration to configure the distribution of responsibilities among the various levels of government; (iii) financial decentralization to consolidate a more autonomous and equitable financing system; and (iv) land-use management to create the necessary conditions for regional and local development with a national perspective that will reduce geographic inequities and address the specific problems faced by both urban areas and remote communities. The studies will be conducted during the first three years of the program and will include outreach and public information activities (stakeholders in the political and academic spheres and civil society organizations) through forums, seminars and workshops.

The Bank's country and sector strategy:

In line with the government program, the main objective of the Bank's strategy for Chile is to provide support to help increase competitiveness, reduce social and regional inequalities, and deepen democracy by fostering a more participatory society and a more modern State.

The proposed program is consistent with this strategy since its purpose is to strengthen the managerial capacity of the regional and municipal governments to assume responsibility for the provision of services transferred from the central government, thus achieving more balanced development in the country, and bolstering the capacity of the regional governments to allocate regional investment resources more efficiently and lay the foundations for the establishment of systems for public evaluation and accountability and citizen oversight.

Environmental and social review:

From the social and environmental standpoints, the program will have a positive impact on the communities directly affected by the projects, which will see improvements in their quality of life. Although certain projects to be financed under the program may have a moderate impact on the environment, the measures necessary to mitigate any adverse impact are well known, easily implemented and regulated under the environmental impact assessment system (SEIA), a satisfactory system for environmental protection for the entire national investment system in the country (see paragraphs 4.7 to 4.9).

Benefits: The program will finance projects that will have a direct positive impact on the living conditions of the population or will support economic development of the regions within a strategic framework for regional development. More than 50% of the projects in the pipeline of the Integrated Project Bank that are eligible for financing under the proposed program are in the areas of education, health, sanitation, rural electrification, and rural roads—all sectors that directly benefit low-income groups.

Strengthening regional public institutional capabilities will help produce development strategies that are tailored to the realities of each region. Financial management of public investment will be designed to combine the development interests of the different sectors and stakeholders through a set of planning, programming, and financing instruments that will improve coordination between the various levels of government. Opportunities for public participation, accountability, and control will thus be opened up. Coordination between sectors and between the regional and municipal governments will lead to more efficient use of the financial, human, and organizational resources available in the regions.

The studies component of the program will generate a broad-based dialogue with society and the principal political players on the main elements of the government decentralization program and its institutional and political implications. The dialogue will provide a broad framework for discussion and consensus-building that will make it possible to phase in the decentralization program within the current government's term of office.

Risks: **The regions' ability to utilize the various investment planning, prioritization, and programming instruments.** Prior experience in the execution of projects with the FNDR has shown that it has a proven institutional and operational foundation to assure expeditious execution of the program, in particular the investment component. However, in order to deepen the decentralization process and increase the transfer of resources and autonomy to the regional governments it will be necessary to strengthen the technical and institutional capacity of the regional governments and introduce new managerial instruments, such as strategic planning in the prioritization of investments, multiyear investment programs, and programming agreements. These instruments are being developed and need to be introduced into investment management practices and processes and adapted by the regional governments in order to overcome the institutional inertia that is the legacy of a long tradition of centralism and little autonomy for local government. This challenge will be addressed through the activities included in the institutional strengthening component and through the regions' gradual adoption and use of these instruments as the investment component proceeds.

Impact of the institutional strengthening component. Although the previous stage of support for the FNDR included resources for institutional strengthening of the regional governments, the decision by the Ministry of Finance to reduce the counterpart resources allocated to this component beginning in 1996 affected the institutional strengthening activities. However, because the objectives of the component were not adjusted to allow for the decrease in resources, the activities carried out were cut back, mainly to training courses. Generally speaking, the courses did not have any significant impact in terms of achieving the original objectives of institutional strengthening and development. In view of this situation, the following measures were included in the operation to ensure that this component has the desired impact on regional institutional development and improved efficiency and management of regional investment: (i) the institutional strengthening activities will not be limited to training but will include the development and use of instruments and mechanisms to enhance planning, programming, and prioritization of the regional investment portfolio; (ii) institutional strengthening units will be established in SUBDERE and in the regional governments, which will ensure that the activities carried out under the component are adapted and institutionalized, especially in the regions; and (iii) the Bank and SUBDERE have agreed on a matrix of performance indicators that will enable the Bank to closely monitor the extent to which the planned activities are being carried out and the objectives are being met.

Special contractual clauses:

Conditions precedent to the first disbursement. Prior to the first disbursement of the financing, the following documentation must be submitted to the Bank: (i) evidence that the national executing unit responsible for implementation of the institutional strengthening component has been created in SUBDERE and has been staffed with technical personnel qualified to carry out the duties assigned to the unit (paragraph 3.2); (ii) evidence that the Operating Regulations of the program have entered into force, in accordance with the terms and conditions previously agreed upon with the Bank (paragraph 3.6); (iii) evidence that the local counterpart resources for the first year of program execution have been allocated in the public-sector budget for the calendar year in which the loan contract is signed (paragraph 3.26); (iv) the model agreement that the borrower will sign with the UNDP for execution of subcomponent of the studies component to deepen decentralization, for approval by the Bank (see paragraph 3.3); and (v) evidence that new indicators reflecting the regional development objectives pursued by the program have been incorporated into the formula for interregional resource allocation (paragraph 3.4).

Special contractual conditions: (i) To be eligible for institutional strengthening resources, the regions will be required to submit an institutional strengthening program with a favorable technical recommendation from MIDEPLAN, sign an agreement for that purpose with SUBDERE and demonstrate that they have established a regional institutional strengthening unit in the respective regional government (paragraph 3.2); (ii) the budget for 2002 must reflect the fact that the updated formula is being used for the allocation of resources to the regions (see paragraph 3.4); (iii) the income generated by rates must cover the costs of operation, maintenance, administration and unsubsidized investment (see paragraph 3.18); (iv) within 60 days after the end of each semiannual period of program execution, the executing agency will submit semiannual progress reports to the Bank for consideration on the status of program activities. The report submitted at the end of each year of program execution will also include the investment plan for the following year, the financial status of the program, and information on the institutional strengthening activities and the studies and activities for public information carried out during the respective year, as well as those planned for the following year (paragraph 3.31); (v) annually, after delivery of the semiannual progress report at the end of each year of program execution, SUBDERE will review the information with the Bank to assess the progress of the program, identify any difficulties that have arisen, and devise the necessary corrective measures (paragraph 3.32); and (vi) as part of the program evaluation process, two external evaluations will be conducted—a mid-term evaluation and a final evaluation—according to a methodology and guidelines to be agreed upon by the executing agency and the Bank. The findings of the first evaluation are to be submitted to the Bank once 50% of the program resources have been committed or 30 months after the effective date of the loan contract, whichever occurs first. The final evaluation is to be conducted within the six months prior to the date of last disbursement of the financing (paragraph 3.34).

Poverty-targeting and social sector classification: This operation qualifies as a social equity enhancing program, as described in the key objectives of the Bank's activities set forth in the Report on the Eighth General Increase in Resources (document AB-1704). However, as the makeup of the project portfolio under the program may vary, reflecting demand in the regions, it cannot be ascertained whether more than half of the direct beneficiaries will be poor. The operation therefore does not qualify as a poverty-targeted investment (PTI) (see paragraphs 4.26–4.28).

Exceptions to Bank policy: None.

Procurement: Based on a review of the bidding procedures carried out for works in previous stages of Bank financing for the FNDR, as well as the experience of the Ministry of Public Works with road works contracts (since road projects are the largest projects financed by the FNDR), the following thresholds are recommended for international competitive bidding under the program: construction works, US$5 million; procurement of goods, US$350,000; and consulting firms, US$200,000.

Given the volume of projects to be financed and the fact that they will be spread geographically throughout the country, it is proposed that bidding for works and goods in amounts below the above-mentioned thresholds be reviewed ex post based on random sampling. In the case of contracts for consulting services in amounts above US$50,000, the Bank will conduct an ex ante review of the terms of reference for the services, the short list of individual consultants and consulting firms, and the guidelines for ranking bidders.